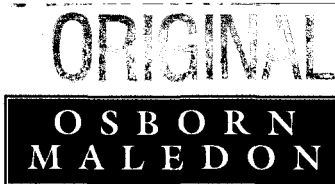


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AZ CORP COMMISSION  
DOCUMENT CONTROL

August 1, 2006

Arizona Corporation Commission  
DOCKETED

AUG 2 2006

DOCKETED BY	
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Jeff Hatch-Miller, Chairman  
William A. Mundell, Commissioner  
Mike Gleason, Commissioner  
Kristin K. Mayes, Commissioner  
Barry Wong, Commissioner  
ARIZONA CORPORATION COMMISSION  
1200 West Washington  
Phoenix, Arizona 85007-2996

Re: Reports Regarding Pinnacle West/APS Second Quarter 2006 Earnings and  
Related Letters of Certain Commissioners to the Docket in No. E-01345A-05-  
0816

Dear Commissioners:

As counsel for Arizona Public Service Company ("APS"), I write to you concerning the recent news reports regarding the second quarter 2006 earnings posted by Pinnacle West Capital Corporation ("PWCC"), the parent company of APS, and the letters sent last week to the Docket in APS' general rate case (No. E-1345A-05-0816) by several Commissioners requesting a special open meeting in this Docket to discuss those earnings and APS' current financial condition generally.

As a preliminary matter, those news reports were highly misleading and failed to disclose the facts necessary to put those second quarter earnings in proper perspective. Mr. Brandt, the Chief Financial Officer of PWCC, provided you with some of that factual background in his letter to you of July 26, 2006, and it is unfortunate that the news reporters did not seek such information from PWCC in order to provide a more balanced and accurate report regarding those earnings. The misleading nature of those news reports has undermined the credibility of PWCC and APS, and, I might add, also the credibility of the Commission because of the inaccurate suggestion in those news reports that the second quarter earnings posted by PWCC supposedly bring into question the need for the emergency rate relief recently obtained by APS and the additional rate relief requested by APS in this proceeding.

Having said that, I write principally to express our disagreement with the request for a special open meeting in this proceeding to address only the issue of APS' so-called "improved

financial condition." (*See, e.g.*, letter of Commissioner Mayes dated July 25, 2006.) I do so from the standpoint of fairness and due process. There is pending before the Commission in this proceeding a rate case in which the Commission is legally mandated to evaluate all relevant factors concerning APS' financial condition and ensure that APS receives a fair rate of return. Testimony in that rate case currently is being prepared by Commission Staff, other parties and APS under a schedule that was set by the Administrative Law Judge several months ago. That testimony and the eventual hearing in the rate case will address the financial condition of APS, and all relevant factors concerning APS' financial condition can be fully considered by the Commission at that time. On the other hand, a special open meeting prompted by news reports about PWCC's second quarter earnings would not only disrupt preparation by the parties for the rate case, but also would potentially further mislead the public and the Commission about APS' current financial condition because such a special open meeting would focus on only one limited issue and time period without regard for the many other factors that affect APS' financial condition and that must be considered by the Commission in the rate case.

Under the circumstances, we believe that such a special open meeting in advance of the hearing in the pending rate case would be fundamentally unfair to APS, would prejudice APS in the rate case, and would potentially deprive APS of due process in the rate case proceeding. We respectfully submit that such a special open meeting in this proceeding is unnecessary and would raise numerous procedural and legal questions.

We recognize that the Commission has a responsibility to keep informed about matters that impact the decisions that it makes, including its recent decision in APS' emergency rate case. Currently, APS files with the Commission quarterly reports that detail APS' financial condition. Nevertheless, in the hope that the Commission will abandon the request for a potentially prejudicial special open meeting on one aspect of the pending general rate case (*i.e.*, APS' current financial condition), APS has authorized me to inform you that it will provide to the Commission and its Staff by August 18 a detailed written report on APS' current financial condition so that the Commission can be prepared to address (and conduct further analysis, if it wishes) all aspects of APS' current financial condition (including the second quarter earnings report) in the context of the pending general rate case.

APS seeks only the fairness and due process to which it is entitled in its pending rate case. We welcome full and complete evaluation and discussion of APS' financial condition as part of the pending rate case, and we hope that the Commission will proceed accordingly.

August 1, 2006

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Very truly yours,

A handwritten signature in cursive script, reading "Wm J. Maledon".

William J. Maledon

WJM:dbd

cc: Brian C. McNeil, Executive Director  
Lyn A. Farmer, Chief Administrative Law Judge  
Ernest Johnson  
Christopher C. Kempley  
Heather Murphy  
Docket Control  
Parties of record